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UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Six)

Docket No. RM2020-13

CHAIRMAN'S INFORMATION REQUEST NO. 4

(Issued November 12, 2020)

To clarify the Postal Service's petition to consider proposed changes in analytical principles, filed September 15, 2020,[1] and the responses to Chairman's Information Request Nos. 1 and 2, filed October 14 and November 5, 2020, respectively,[2] the Postal Service is requested to provide written responses to the following questions. The responses should be provided as soon as they are developed, but no later than November 19, 2020.

Some of these questions are derived from a motion filed by the Public Representative, who asserts that this additional information "will allow participants to provide more constructive comments and evaluate whether the proposal meets the applicable legal and regulatory requirements."[3]

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[1] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), September 15, 2020 (Petition); *see* A. Thomas Bozzo & Tim Huegerich, Analysis of Labor Variability for Automated Letter and Flat Sorting, Christensen Associates, September 15, 2020 (Variability Report).

[2] Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 1, October 14, 2020 (Response to CHIR No. 1); Responses of the United States Postal Service to Questions 1-8 of Chairman's Information Request No. 2, November 5, 2020 (Response to CHIR No. 2).

[3] Public Representative Notice of Filing Confidential Motion for Issuance of Information Request, November 2, 2020, at 1 (NP PR Motion). The Postal Service responded to the NP PR Motion stating that it "believes that the proposed questions could safely be posed and answered in public documents." Response of the United States Postal Service to Public Representative Motion for Issuance of an Information Request, November 2, 2020, at 2. Therefore, although the proposed questions were originally filed under seal, modified versions of these questions are posed here publicly.

1. Please refer to Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions), July 1, 2020 (FY19 Summary Descriptions), Word file: "CS03-19.docx." The Postal Service states "[di]stribution operations at [Management Operating Data System (MODS)] mail processing facilities are partitioned into eleven cost pools, reflecting various manual, mechanized and automated sorting activities," including Delivery Barcode Sorter (DBCS), Automatic Flat Sorting Machine 100 (AFSM100) and Flat Sequencing System (FSS) cost pools. FY19 Summary Descriptions at 3-4, 3-5.

    a. Please provide the FY 2019 accrued costs and volume-variable costs (calculated using current and proposed variabilities) for each of the three referenced above cost pools.

    b. Please list the MODS or other operation codes for activities that make up each of the three referenced above costs pools, and for which the accrued costs are calculated.

2. Please refer to the Variability Report that provides variability estimates for DBCS, AFSM100, and FSS machine operations that are derived from runtime and workhour regression models based on the data for FY 2016-FY 2019 time period that "serves as the sample period for the main estimation results." Variability Report at 21-23.

    a. Please discuss whether for any of the three referenced above machine operations, the Postal Service considered estimating separate variabilities for volume peak and non-peak time periods (months). With your response, please include program and output files, if applicable, and explain why such estimation was rejected or even not considered.

    b. If in question 2.a. the Postal Service indicated that it did not consider estimating separate variabilities for any or all referenced above machine operations, please discuss whether the variabilities estimated separately

for volume peak and non-peak time periods would be materially different from the respective variabilities estimated in Proposal Six, and explain why.

3. Please refer to the Response to CHIR No. 1 that states "[m]odel specifications including only the first and only the twelfth lags [of total pieces fed (TPF)] also were considered." Response to CHIR No. 1, question 2.b. Please also refer to the Response to CHIR No. 2 that states "[i]n distributed lag models … the sum of the coefficients on the contemporaneous and lagged TPF would represent the longer-run elasticity." Response to CHIR No. 2, question 2 with the reference to the paper by Badi H. Baltagi, *Econometrics,* Springer-Verlag, 2008 (Baltagi Paper) at 129.

   a. Please confirm that, in the Baltagi Paper, the long-run effect of a unit change of an explanatory variable X on dependent variable Y is calculated as the sum of the coefficients β0, β1, …βs, where these coefficients correspond to consecutive lags of an independent variable X. If not confirmed, please explain how the long-run effect is calculated in the Baltagi Paper.

   b. If question 3.a. is confirmed, please explain why the longer-run elasticity can be calculated using the sum of the coefficients on the contemporaneous and non-consecutive lagged TPF variables (*e.g.,* the first and twelfth lags), as it is done in Proposal Six, and provide the applicable references.

   c. Please explain the difference in interpretation, if any, between the long-run elasticity calculated by summing the coefficients on the contemporaneous and consecutively lagged TPF variables (*e.g.,* the first through the twelfth lag) and the long-run elasticity calculated in Proposal Six.

d. Please confirm that for Proposal Six, the Postal Service did not consider model specifications that employed the consecutively lagged TPF, such as the first through twelfth lags of TPF. If confirmed, please explain why. If not confirmed, please explain why these models specifications were rejected and provide program and output files, if applicable.

4. Please refer to the Response to CHIR No. 2 that states "[a] preferred econometric approach to addressing COVID-related distribution workload impacts may not involve changing the sample period at all, but rather might involve introducing recession-related control variables or the like." Response to CHIR No. 2, question 6. Please also refer to Docket No. R2013-11, Further Statement of Thomas E. Thress on Behalf of the United States Postal Service, September 26, 2013 (Thress Statement), Technical Appendix II.

a. Please provide specific examples of recession-related control variables that might be included in the econometric model used in Proposal Six to address COVID-related distribution workload impacts.

b. Please discuss whether any variables that Thress Statement characterized as "[e]xigent [f]actors associated with the Great Recession" could be considered for inclusion into Proposal Six econometric model to address the impact of COVID-19. Thress Statement at II-4 through II-18.

c. Please discuss whether and how the inclusion of "recession-related control variables or the like" into the econometric model used in Proposal Six would affect the estimated variabilities, and explain why. Response to CHIR No. 2, question 6.

By the Chairman.

Robert G. Taub